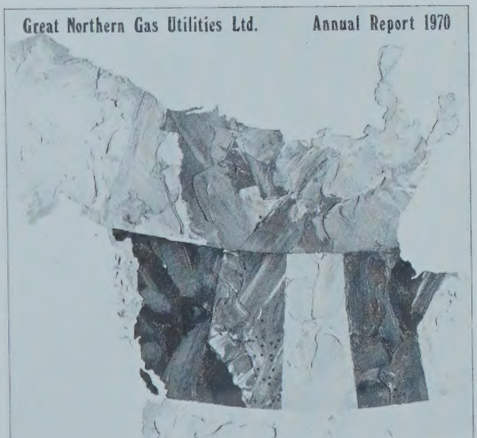
Great Northern Gas Utilities Ltd. Annual Report 1970



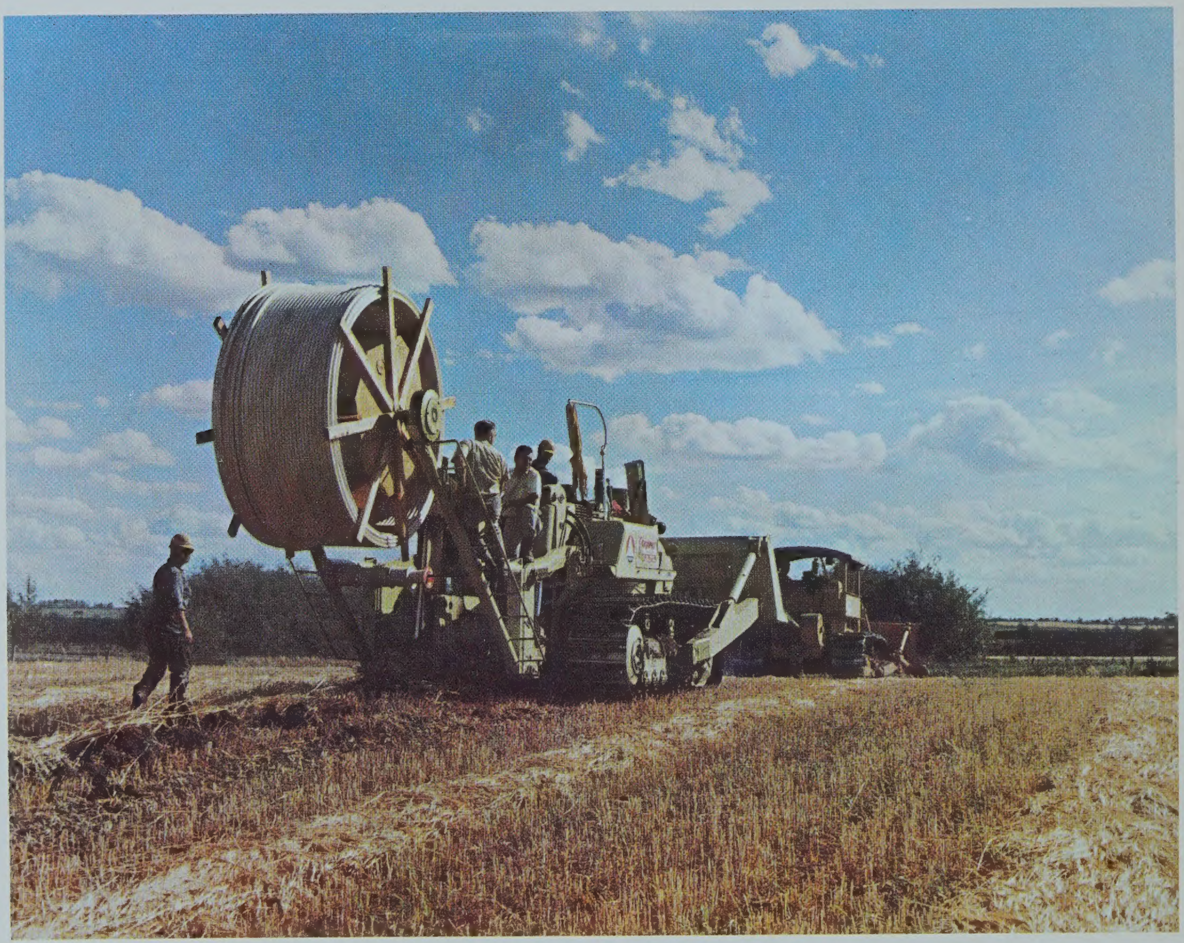
Cover:
An abstract painting of Western Canada, indicating thereon the location of some of the larger communities served by Great Northern Gas Utilities Ltd.

Great Northern Gas Utilities Ltd. and subsidiaries

Highlights

	1970	1969	1968	1967	1966
Utility Customers at Year End	30,369	28,706	25,043	23,006	21,319
Natural Gas Sales (Mcf)	12,705,828	11,039,311	10,525,718	8,384,447	6,267,402
Electricity (KWH)	25,298,100	20,883,105	17,080,792	13,737,895	11,297,812
Sales (Note)	$ 8,948,620	$ 8,052,468	$ 8,757,703	$12,014,753	$10,894,582
Other Revenue	$ 1,106,148	$ 1,029,844	$ 931,035	$ 240,711	$ 167,337
Cash Flow	$ 2,323,967	$ 2,084,159	$ 1,963,795	$ 2,146,588	$ 1,910,257
Net Earnings (Before extraordinary items)	$ 1,493,867	$ 1,265,601	$ 1,244,204	$ 1,070,344	$ 971,044
Working Capital (Exclusive of bank borrowings)	$ 6,950,180	$ 7,070,249	$ 6,828,879	$ 8,015,380	$ 3,326,234
Long Term Debt (Inclusive of bank borrowings)	$13,922,900	$13,959,071	$13,022,793	$12,756,625	$10,837,437
Annual Additions to Plant					
Utility	$ 1,786,298	$ 2,437,371	$ 3,565,414	$ 1,544,007	$ 1,297,522
Other	$ 215,349	$ 110,647	$ 3,203,708	$ 1,049,544	$ 1,243,208
Gross Plant (Before deducting customer contributions)					
Utility	$22,150,715	$20,600,907	$18,294,141	$14,868,190	$15,800,175
Other	$ 3,190,436	$ 2,994,355	$ 2,891,395	$ 9,647,882	$ 8,778,603
Miles of Pipeline (Transmission and Distribution)	2,521	2,240	1,711	1,097	1,006

Note: After giving effect to the sale of the propane operations as of May 31, 1968
and the acquisition of Fort St. John Petroleums Ltd. December 27, 1968.



Plowing in plastic pipe to provide natural gas to farms and rural communities in Alberta.

TO THE SHAREHOLDERS:

Net earnings for the year ended December 31, 1970, amounted to $1,662,617, including an extraordinary item of $168,750, an increase of $397,016 or 31% greater than for 1969. Cash flow from operations increased by 11% to $2,323,967, compared to $2,084,159 for the preceding year. Total revenues for the year were $10,054,768 compared to $9,082,312 for 1969. Net earnings attributable to common shares after payment of preferred dividends of $168,675, amounted to $1,493,942 compared to $1,087,555 for 1969, an increase of 37%.

A breakdown of net earnings on a comparative basis is as follows:

	1970	1969	Increase
From Operations	$ 942,917	$ 786,126	20%
From Investments	550,950	479,475	15%
	1,493,867	1,265,601	18%
Extraordinary Item	168,750	—	—
Total	$1,662,617	$1,265,601	31%

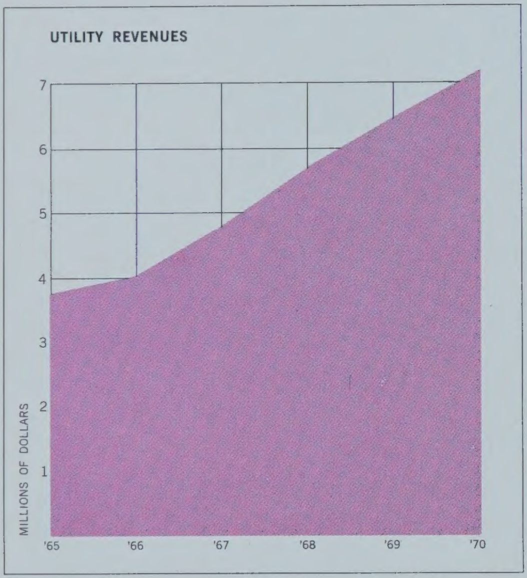
Sales increased to $8,948,620 or 11% over the preceding year. Utility sales for 1970 amounted to $7,308,856 compared to $6,467,511 for 1969, an increase of 13%. Other sales, that is propane of Vigas Propane Ltd. and oil and gas production sales of Fort St. John Petroleums Ltd., increased to $1,414,797 from $1,379,802 in 1969. The increase in sales, reflects a general increase in customers as a result of the expansion of existing systems and the installation of new systems to communities not previously served.

Cost of sales at $4,018,802 was 44.9% of sales compared to 44.7% in 1969. Operating, selling and administrative expenses amounted to $2,188,646, substantially unchanged from the preceding year. We are pleased with the results obtained for the year having in mind the pressure on operating expenses due to increased costs for labour and services. The Company, while using all reasonable means to control expenses, has continued to maintain a high standard of service to its customers.

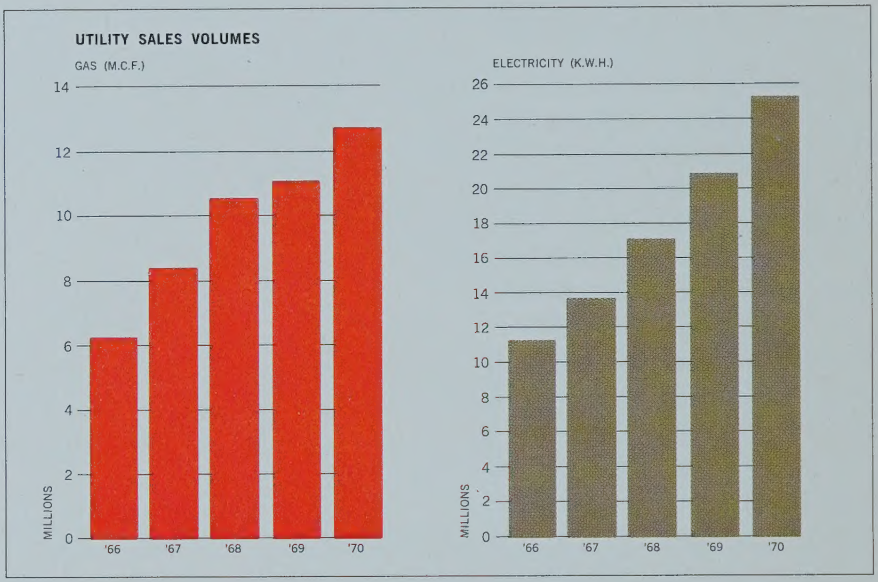
Working capital, exclusive of bank loans and banker's acceptances, at $6,950,180 compares with $7,070,249 for 1969. As at December 31, 1970, working capital included $5,910,444 of short term investments. Total funds generated during the year amounted to $2,840,876 with the principal sources being $2,323,967 from operations, $307,382 from customers contributions in aid of construction and $149,146 from the disposal of fixed assets.

Long term debt decreased during the year by $307,421, including the foreign exchange adjustment of $168,750, to $12,742,900.

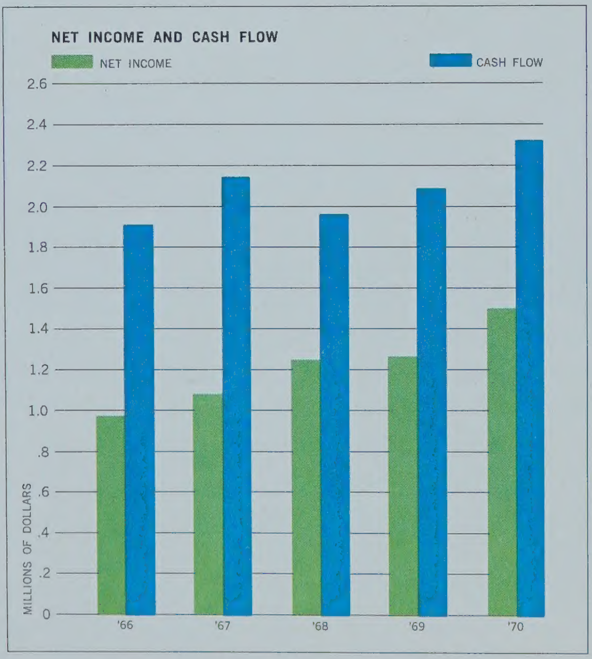
During the year, $211,500 principal amount of the Company's debentures and 3,000 of the Company's Series "A" Preferred Shares were purchased on the security market with respect to the sinking fund for the outstanding debentures and the purchase



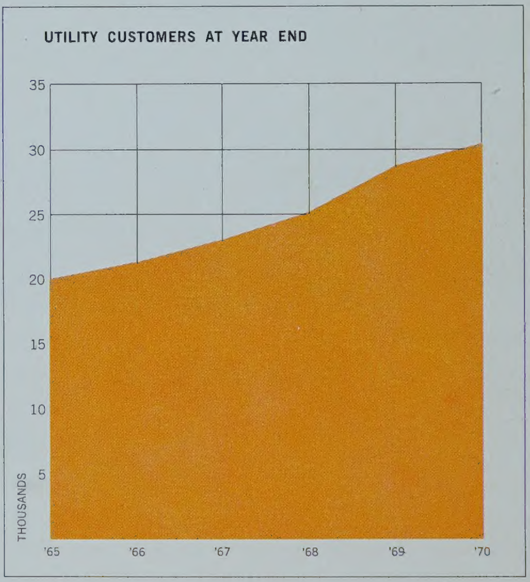
UTILITY REVENUES
MILLIONS OF DOLLARS
7
6
5
4
3
2
1
'65
'66
'67
'68
'69
'70



UTILITY SALES VOLUMES
GAS (M.C.F.)
14
12
10
8
6
4
2
0
MILLIONS
'66
'67
'68
'69
'70
ELECTRICITY (K.W.H.)
26
24
22
20
18
16
14
12
10
8
6
4
2
0
MILLIONS
'66
'67
'68
'69
'70



NET INCOME AND CASH FLOW
NET INCOME
CASH FLOW
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
.8
.6
.4
.2
0
MILLIONS OF DOLLARS
'66
'67
'68
'69
'70



UTILITY CUSTOMERS AT YEAR END
35
30
25
20
15
10
5
THOUSANDS
'65
'66
'67
'68
'69
'70

fund for the outstanding preferred shares respectively. Also $58,721 of other term debt was redeemed.

Highlights of the Company's operations for the years 1966 through 1970 are summarized on page 1.

Marketing:

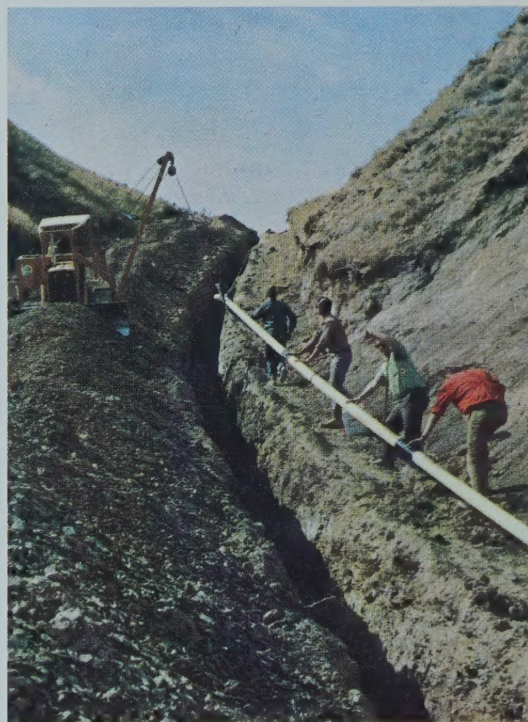
The Company continues to attach as customers substantially all new construction in its service areas. The general slowdown in residential construction was noticeable in the areas served, but this condition was offset by increased usage by some of the existing customers, particularly in rural areas, and increased commercial and industrial sales. The volume of gas sold during 1970 was 15% greater than the preceding year and amounted to 12,705,828 m.c.f. Four additional communities were added during the year and the program of rural gasification was continued with the installation of two new systems and extensions to those previously established. The Company now serves gas to 64 communities and 13 rural systems. Sales of electricity distributed in the Town of Yellowknife increased during the year by 21% to 25,298,100 k.w.h.

Supply:

In the provinces of Alberta and British Columbia, the supply of natural gas continues to be purchased from pipeline companies, producers at wellhead and gathering systems. The Company operates 13 wells owned by others and owns a further 6 wells which are used as standby sources in two towns. Natural gas in Manitoba is purchased from Trans-Canada Pipe Lines Limited under a demand and commodity contract. This purchase arrangement is complemented by a propane-air peak shaving plant owned and operated by the Company. Butane and propane required for the operations on Vancouver Island, B.C., High Level, Alberta, and Manitoba, are purchased from an affiliated company, Consolidated Hydrocarbons Limited. Electricity is purchased for the City of Yellowknife from Northern Canada Power Commission. We are satisfied that with the supply under contract and the additional supplies available, requirements in the foreseeable future do not present a problem.

Capital Expenditures:

Capital expenditures during 1970 were considerably less than for 1969 and amounted to $2,001,647. Principal expenditures were for the construction of new systems in three communities and two plastic rural systems in the Province of Alberta and the installation of a transmission line and distribution system for the Town of Emerson in the Province of Manitoba. Also transmission and distribution facilities were extended throughout all areas



Interior view of the Carnation potato processing plant in Carberry, Manitoba; one of the larger industrial consumers of natural gas in the province.

Construction of transmission line through the Badlands in Alberta to provide service to the Hamlet of Rosedale and a secondary supply to the City of Drumheller.

Construction of transmission line to serve the Town of Emerson, Manitoba, a new franchise.

served and the Town of Grande Cache was converted from propane vapour to natural gas. The construction program for the year accounted for 17 miles of transmission lines, 24 miles of distribution pipe, 23 miles of service lines and 173 miles of plastic pipe.

Future:

Capital expenditures for 1971 are projected at $1,235,000, principally for the natural gas operations in the provinces of Alberta and Manitoba.

In Alberta, it is proposed that four new communities and one new rural system will be constructed and that the existing systems will be expanded with particular emphasis on the plastic rural facilities.

In Manitoba, the capital expenditures will, for the most part, be for expansion of the present system and the construction of facilities in one community not now served.

The Company continues to investigate new areas for expansion and investment, and with its cash reserves is in a favourable position in this regard. Also because of its highly liquid position and its established line of credit, there are no plans to market any new issue of securities during the year.

On behalf of the Directors of the Company, we wish to express their sincere appreciation to our employees for their dedicated efforts which contributed to the results outlined in this report.

Respectfully,

Chairman of the Board

Anthony C. Rooney

President

April 27, 1971.

Consolidated Balance Sheet

December 31, 1970 and 1969

ASSETS

	1970	1969
Fixed at cost:		
Transmission lines and distribution systems	$18,306,630	$17,238,212
Land, buildings and equipment	2,247,706	2,065,011
Oil and gas properties	1,788,012	1,619,587
Customers' installations	1,096,625	1,077,655
	23,438,973	22,000,465
Less: accumulated depreciation	5,398,686	5,051,572
accumulated depletion	745,984	696,849
	6,144,670	5,748,421
	17,294,303	16,252,044
Investments at cost:		
7¾% preferred shares of affiliate	5,250,000	5,250,000
Other	29,534	38,905
	5,279,534	5,288,905
Current:		
Cash	162,767	128,380
Short term investments	5,910,444	5,973,588
Accounts receivable—		
Trade	1,623,576	1,626,878
Parent	521,333	
Affiliates		55,901
Inventories at lower of cost or net realizable value	555,371	616,189
Prepaid expenses	20,588	34,349
	8,794,079	8,435,285
Other:		
Deferred charges less amounts written off	169,689	185,412
Cost of shares of subsidiaries over net book value at dates of purchase	278,781	278,781
	448,470	464,193
	$31,816,386	$30,440,427

LIABILITIES

	1970	1969
Shareholders' equity:		
Capital (Note 3)		
Authorized		
250,000 preferred shares of a par value of $25 each		
5,000,000 common shares of no par value		
Outstanding		
111,200 6% cumulative redeemable preferred shares, Series A (1969—114,200 shares)	$ 2,780,000	$ 2,855,000
3,130,000 common shares	6,034,970	6,034,970
Retained earnings (Notes 3 and 4)	5,276,795	4,465,254
	14,091,765	13,355,224
Minority interest in subsidiaries:		
Capital	810,374	810,437
Surplus	694,301	575,675
	1,504,675	1,386,112
Long term debt (Note 5)	12,742,900	13,219,071
Deposits	325,580	286,976
Deferred income taxes (Note 6)	127,567	88,008
Current:		
Bank loan	380,000	740,000
Bankers' acceptances	800,000	
Accounts payable and accrued charges —		
Trade	1,214,310	1,199,517
Affiliates	419,814	
Income taxes payable	114,375	107,319
Current instalments on long term debt	95,400	58,200
	3,023,899	2,105,036
	$31,816,386	$30,440,427

On behalf of the Board:

W F Rich Director.

Anthony C. Rooney Director.

(See accompanying notes)

Consolidated Statement of Earnings

Years ended December 31, 1970 and 1969

	1970	1969
Revenue:		
Sales	$ 8,948,620	$ 8,052,468
Income from investment in affiliate	406,875	405,295
Other (including investment income of $488,918; 1969—$472,539)	699,273	624,549
	10,054,768	9,082,312
Expenses:		
Cost of sales	4,018,802	3,601,222
Operating, selling and administrative expenses	2,188,646	2,169,744
Interest and expense on long term debt	835,286	838,528
Other interest expense	44,653	18,297
Depreciation	647,411	616,159
Depletion	49,135	31,230
Minority interest in earnings of subsidiaries	118,631	55,809
	7,902,564	7,330,989
Earnings before income taxes and extraordinary item	2,152,204	1,751,323
Income taxes (Note 6)	658,337	485,722
Earnings for the year before extraordinary item (per common share 1970—$ .42; 1969—$ .35)	1,493,867	1,265,601
Gain on foreign exchange (Note 5)	168,750	
Net earnings for the year (per common share 1970—$ .48; 1969—$ .35)	$ 1,662,617	$ 1,265,601

(See accompanying notes)

Consolidated Statement of Retained Earnings

Years ended December 31, 1970 and 1969

	1970	1969
Balance at beginning of year		
As previously stated	$ 4,465,254	$ 4,034,999
Prior years' adjustments (Note 8)		
Adjustment of depreciation	164,527	164,527
Loss on sale of fixed assets	(231,328)	(231,328)
As restated	4,398,453	3,968,198
Add net earnings for the year	1,662,617	1,265,601
	6,061,070	5,233,799
Deduct cash dividends		
Preferred shares	168,675	178,046
Common shares	615,600	657,300
	784,275	835,346
Balance at end of year	$ 5,276,795	$ 4,398,453

(See accompanying notes)

Consolidated Statement of Source and Application of Funds

Years ended December 31, 1970 and 1969

	1970	1969
Funds were provided from:		
Operations—		
Net earnings for the year	$ 1,662,617	$ 1,265,601
Add—depreciation and depletion	696,546	647,389
—deferred income taxes	39,559	88,008
—gain on foreign exchange	(168,750)	
—other	93,995	83,161
Cash flow from operations	2,323,967	2,084,159
Disposal of fixed assets	149,146	65,051
Preferred shares issued		151,125
Additional long term debt		4,354,750
Other	60,381	42,436
	2,533,494	6,697,521
Funds were applied to:		
Purchase of fixed assets	2,001,647	2,548,018
Less customer contributions	307,382	691,501
	1,694,265	1,856,517
Reduction of selling price of fixed assets in a prior year	231,328	
Investment in Fort St. John Petroleums Ltd.		6,174
Redemption of preferred shares	75,000	233,625
Reduction of long term debt	307,421	173,472
Dividends on common and preferred shares	784,275	835,346
Financing and development costs	1,274	106,017
	3,093,563	3,211,151
Increase (decrease) in working capital during the year	$ (560,069)	$ 3,486,370

(See accompanying notes)

Notes To Consolidated Financial Statements

December 31, 1970

1. Basis of the financial statements

The consolidated financial statements include the accounts of Great Northern Gas Utilities Ltd. and all subsidiaries.

2. Fixed assets

Depreciation of fixed assets, other than oil and gas properties and equipment, is provided on a straight line basis at rates varying from 2% to 20% which are designed to amortize the cost of the assets over their estimated useful lives.

All costs related to the acquisition of, exploration for and development of oil and gas properties, whether productive or unproductive, are capitalized and depleted on the composite unit of production method based on total estimated reserves of oil and gas.

3. Capital

Under the conditions attached to the outstanding preferred shares, the Company is required to purchase for redemption, in each calendar year, $60,000 of preferred shares Series A (cumulative to a maximum of $120,000 in any calendar year) if available on the open market, at a price not exceeding $24.50 per share. The Company has satisfied its obligation to January 31, 1974 with respect to this redemption provision. In addition, the preferred shares Series A may be redeemed at any time at a price of $26.25 per share plus accrued and unpaid dividends.

To December 31, 1970, 14,845 preferred shares Series A of an aggregate par value of $371,125 have been redeemed (3,000 shares during 1970). Accordingly, retained earnings at December 31, 1970 includes $371,125 designated as "capital surplus" under the provisions of the Canada Corporations Act.

4. Dividend restrictions

The provisions attaching to the Series A preferred shares and the 7¼% promissory note contain restrictions as to the declaration and payment of cash dividends on common shares, the most restrictive of which at December 31, 1970 limits the payment of such dividends to an amount which would not exceed $1,958,000.

5. Long term debt

	1970	1969
6% Sinking Fund Debentures, Series A due January 15, 1985	$ 8,389,500	$ 8,601,000
7¼% Promissory Note, due 1989 ($4,000,000 U.S.)	4,120,000	4,288,750
6% Sinking Fund Bonds, Series A of a subsidiary, due October 15, 1976	276,000	321,521
7% Notes Payable	52,800	66,000
	12,838,300	13,277,271
Less instalments included in current liabilities	95,400	58,200
	$12,742,900	$13,219,071

As a result of the freeing of the rate of exchange between the Canadian and United States dollars during 1970, the Company has adjusted the carrying value of the 7¼% Promissory Note on the basis that $1.00 U.S. equals $1.03 Canadian. The resulting gain of $168,750 is included in earnings as an extraordinary item.

Long term debt repayments will amount to $209,000 in 1972, $279,000 in 1973 and 1974, and $397,000 in 1975.

6. Income taxes

For income tax purposes the companies claim capital cost allowances (depreciation) in excess of the related charges to earnings. Certain regulated subsidiaries are required to record only income taxes payable for the year in determining rates and accordingly, deferred

income taxes are not provided in the accounts of such companies with respect to claiming capital cost allowances in excess of depreciation reflected in the accounts. In the case of the remaining companies where capital cost allowances exceeded depreciation reflected in the accounts, deferred income taxes of $39,559 were provided in 1970.

In addition, certain subsidiaries engaged in oil and gas operations claim drilling, exploration and lease acquisition costs for income tax purposes in excess of the related depletion reflected in the accounts. The companies, in common with many other companies in the Canadian oil and gas industry, believe that tax allocation accounting applied to claims for drilling, exploration and lease acquisition costs is not appropriate and accordingly, no provision has been made for deferred income taxes on timing differences involving such costs.

If the tax allocation basis of accounting had been followed for all timing differences between taxable income and recorded income, the income tax provision would have increased and net income for the year would have been decreased by $184,000—$ .06 per share ($130,000—$ .04 per share in 1969).

The accumulated income tax reductions related to all timing differences in the current and prior years amounted to approximately $1,351,000 at December 31, 1970.

Accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

	1970	1969
Drilling, exploration and lease acquisition costs	$ 146,000	$ 179,000
Undepreciated capital cost	13,345,000	12,958,000

7. Other statutory information

The Company has nine directors and five officers who were paid the following remuneration during 1970:

	Directors	Officers	Total
Paid by the Company	$10,800	$123,000	$133,800
Paid by subsidiaries	1,500	600	2,100
	$12,300	$123,600	$135,900

8. Prior years' adjustments

During 1970 the regulatory authorities required certain subsidiaries to adjust accumulated depreciation in accordance with rates approved by the authorities.

In addition, a subsidiary agreed to retroactively reduce the selling price at which certain fixed assets were sold to an affiliate in 1968 by $231,328.

Accordingly, retained earnings at the beginning of 1970 and 1969 have been restated to reflect the above changes.

Auditors' Report

To the Shareholders of
Great Northern Gas Utilities Ltd.

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and subsidiaries as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 18, 1971.
Calgary, Canada.

Clarkson, Gordon & Co.
Chartered Accountants.

Board of Directors

FERNAND E. CHENU
Brussels, Belgium

E. JACQUES COURTOIS, Q.C.
Montreal, Quebec

MARC H. DHAVERNAS
Montreal, Quebec

MICHAEL H. FINNELL
Calgary, Alberta

RAYMOND A. RICH
Chairman of the Board

ANTHONY C. ROONEY
President

WILLIAM SPARK
Calgary, Alberta

J. GRANT SPRATT
Calgary, Alberta

DAVID R. WILLIAMS, JR.
Tulsa, Oklahoma

Officers

RAYMOND A. RICH
Chairman of the Board

ANTHONY C. ROONEY
President

ROBERT C. WHARTON
Vice-President, Operations

ERNEST W. STRAUS
Vice-President, Administration and Treasurer

WILLIAM A. TROUGHTON
Secretary

Subsidiary Companies

Plains-Western Gas & Electric Co. Ltd.
Operating in Alberta, British Columbia and Yellowknife, N.W.T.

Plains-Western Gas (Manitoba) Ltd.
Operating in Manitoba

Rockgas Utilities Ltd.
Operating in British Columbia

Fort St. John Petroleums Ltd.
Operating in British Columbia and Alberta

Transfer Agents and Registrar

Montreal Trust Company,
Montreal, Toronto and Calgary

Trustee for Debentures

Montreal Trust Company,
Montreal, Toronto, Edmonton and Calgary

Head Office

700 Three Calgary Place, Calgary 1, Alberta

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LITHOGRAPHED IN CANA

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1970

GREAT NORTHERN GAS UTILITIES LTD.

700 - Three Calgary Place
Calgary 1, Alberta

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INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1970

file

GREAT NORTHERN GAS UTILITIES LTD.

700 - Three Calgary Place
Calgary 1, Alberta

TO THE SHAREHOLDERS:

Consolidated net income for the six months period ended June 30, 1970 amounted to $927,613 compared to $739,691 for the same period of 1969, an increase of 25%. This net income was achieved from operating revenues of $4,876,050 compared to $4,438,692 for the previous year, an increase of 10% and other income of $532,968, an increase of $79,336 for the comparable period of 1969. Operating, selling, and administrative expenses increased by 4% over 1969 to $1,086,054.

Sales volumes for the six months ending June 30, 1970 were 7,703,000 MCF and 12,947,000 KWH compared to 7,033,000 MCF and 10,588,000 KWH for 1969, increases of 10% and 22% respectively.

The company in addition to the usual expansion of existing distribution systems, is proceeding with the construction of systems in two new franchise areas and two new rural plastic areas. Also one town is being converted from propane vapour to natural gas.

A summary of the operating results and statement of source and application of funds of the Company and its subsidiaries for the six months ended June 30, 1970 with comparative figures for the same period of 1969 follows.

Chairman of the Board — President

August 25, 1970.

CONSOLIDATED STATEMENT OF INCOME

Six months ended June 30

	1970	1969
Revenue:		
Operating	$4,876,050	$4,438,692
Income from investment in affiliate	203,437	201,766
Other	329,531	251,866
	5,409,018	4,892,324
Expenses:		
Cost of sales	2,008,790	1,880,209
Operating, selling and administrative expenses	1,086,054	1,044,027
Debenture and other interest	441,570	426,268
Depreciation	329,938	304,910
Depletion	15,330	15,533
Minority interest in subsidiaries	56,515	39,532
	3,938,197	3,710,479
Income before income taxes	1,470,821	1,181,845
Income taxes	543,208	442,154
Net income for the period	$ 927,613	$ 739,691

CONSOLIDATED STATEMENT SOURCE AND APPLICATION OF FUNDS

Six months ended June 30

	1970	1969
Funds were provided from:		
Operations —		
Net income for the period	$ 927,613	$ 739,691
Depreciation and depletion	345,268	320,443
Deferred income taxes	35,648	12,632
Other non-cash expense	46,005	53,690
Total cash flow from operations	1,354,534	1,126,456
Disposal of fixed assets	43,562	38,807
Additional long term debt	—	4,354,750
Other	—	11,630
	1,398,096	5,531,643
Funds were applied to:		
Purchase fixed assets	498,908	782,806
Less customer contributions	28,677	38,357
	470,231	744,449
Redemption of preferred shares	37,500	42,500
Reduction of long term debt	242,485	88,374
Payment of dividends	392,737	455,225
Financing and development costs	5,672	87,373
Other	9,676	18,549
	1,158,301	1,436,470
Increase in working capital	$ 239,795	$4,095,173

(prepared from the records of the Company without audit)